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HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana
FINANCIAL REPORT
YEAR ENDED SEPTEMBER 30, 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 4-26-06

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Hospital Service District No. 1
Parish of St. Mary, State of Louisiana
Franklin, Louisiana

We have audited the accompanying financial statements of the business-type activities of Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Government, as of and for the year ended, September 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, a component unit of the St. Mary Parish Government, as of September 30, 2005, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2005 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Morgan City, Louisiana
November 23, 2005

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2005

This section of the Hospital Service District No. 1's (the "Hospital") annual financial report presents background information and our analysis of the Hospital's financial performance during the fiscal year that ended on September 30, 2005. Please read it in conjunction with the financial statements in this report.

FINANCIAL HIGHLIGHTS

The Hospital's total net assets increased by \$933,679, or 14.4 percent, from the prior year. This increase results from the recognition of operating income of \$905,041 and net non-operating income of \$28,638. During FY 2005 the Hospital continued to see improvement in financial performance as a result of the decision to convert to Critical Access Hospital status. This change in Medicare status, which occurred in April 2003, carried over into FY 2005 and was the catalyst for a number of other positive changes. The most significant impact of this change was a reduction in contractual allowances from 47.1% of gross patient revenue in FY 2004 to 44.7% in FY 2005. This reduction in contractual allowances allowed the Hospital to show a \$572,345 increase in net patient revenues even though gross patient revenues increased by only \$42,308.

During FY 2005 the hospital continued to make a significant investment in property plant and equipment with net capital assets increasing 12.84% to \$5,988,647. The increase in property, plant and equipment included an increase of \$839,668 in construction in progress primarily related to the replacement facility (construction actually began in November 2005) and a \$305,703 increase in major moveable equipment.

Significant improvement in Accounts Receivable management occurred in FY 2005. During the fiscal year the hospital implemented a business office improvement management action plan that resulted in a \$557,754 reduction in net patient accounts receivable. As a result of this improvement gross days in Accounts Receivable decreased from 61.3 at 9/30/04 to 49.8 at 9/30/05.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four components - the Management's Discussion and Analysis of Financial Condition and Operating Results (this section), the Independent Auditors' Report, the Financial Statements, and Supplementary Information.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2005

The financial statements report the financial position of the Hospital and the results of its operations and cash flows. The financial statements are prepared on the accrual basis of accounting. These statements offer short-term and long-term financial information about the Hospital's activities.

The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities) for both the current year and the prior year. They also provide the basis for evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the Statements of Revenues and Expenses and Changes in Net Assets. This statement measures the performance of the Hospital's operations over the past two years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.

The primary purpose of the Statements of Cash Flows is to provide information about the Hospital's cash from operations, investment, and financial activities. The statements of cash flows outline where the cash comes from, what the cash is used for, and the changes in the cash balance during the reporting period.

The annual report also includes Notes to the Financial Statements that are essential to gain a full understanding of the data provided in the financial statements. The notes to the financial statements can be found immediately following the basic financial statements in this report.

FINANCIAL ANALYSIS OF THE HOSPITAL

The balance sheets, the statements of revenue and expenses and changes in net assets report information about the Hospital's activities. Increases or improvements, as well as decreases or declines in the net assets, are one indicator of the financial state of the Hospital. Other non-financial factors that should also be considered include changes in economic conditions, population growth (including uninsured and working poor) and new or changed government regulations.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2005

A summary of the Hospital's balance sheets is presented in the following table:

Condensed Balance Sheets

	Fiscal Year 2005	Fiscal Year 2004	Dollar Change	Total Percent Change
Patient accounts receivable, net	\$ 1,766,047	\$ 2,323,801	\$ (557,754)	-24.00%
Taxes receivable	1,279,640	1,242,936	36,704	2.95%
Settlements Medicare/Medicaid	632,087	367,217	264,870	72.13%
Other assets	758,989	668,397	90,592	13.55%
Property and equipment, net	<u>5,988,647</u>	<u>5,307,436</u>	<u>681,211</u>	<u>12.84%</u>
 Total assets	 <u>\$ 10,425,410</u>	 <u>\$ 9,909,787</u>	 <u>\$ 515,623</u>	 <u>5.20%</u>
 Current liabilities	 \$ 2,832,595	 \$ 3,336,842	 \$ (504,247)	 -15.11%
Long-term debt	160,818	74,627	86,191	115.50%
Net assets	<u>7,431,997</u>	<u>6,498,318</u>	<u>933,679</u>	<u>14.37%</u>
 Total liabilities and net assets	 <u>\$ 10,425,410</u>	 <u>\$ 9,909,787</u>	 <u>\$ 515,623</u>	 <u>5.20%</u>

Patient Accounts Receivable, Net

During FY 2005 the Hospital continued to see significant improvement in patient accounts receivable with a decrease of \$525,384 or 14.3%. This improvement is also reflected in an improvement in Days in A/R—Gross days in A/R went from 101.4 in FY 2003 to 61.6 in FY 2004 and 49.8 in FY 2005 while Net Days in A/R decreased from 115.8 to 73.9 and then to 56.0 for the same period.

Settlements Medicare/Medicaid

The balance due from Medicare and Medicaid at September 30, 2005 is the result of the FY 2003, FY 2004 and FY 2005 Medicare Cost Report filings. According to these cost reports the Medicare owes the Hospital \$412,028 for FY 2005 and the Hospital owes Medicare \$79,642 for FY 2003 while Medicaid owes the Hospital \$140,960 for FY 2004 and \$158,741 for FY 2005 for a net receivable of \$632,087

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2005

Property and Equipment, Net

	Fiscal Year 2005	Fiscal Year 2004	Dollar Change	Total Percent Change
Land and land improvements	\$ 389,823	\$ 382,623	\$ 7,200	1.88%
Buildings	6,405,258	6,405,258	-	0.00%
Fixed equipment	1,348,018	1,348,018	-	0.00%
Major movable equipment	7,132,503	6,826,800	305,703	4.48%
Construction in progress	<u>1,332,575</u>	<u>492,907</u>	<u>839,668</u>	<u>0.00%</u>
Subtotal	16,608,177	15,455,606	1,152,571	7.46%
Less: Accumulated depreciation	<u>(10,619,530)</u>	<u>(10,148,170)</u>	<u>(471,360)</u>	<u>4.64%</u>
Net capital assets	<u>\$ 5,988,647</u>	<u>\$ 5,307,436</u>	<u>\$ 681,211</u>	<u>12.84%</u>

Gross capital assets increased 7.46% (\$1,152,571) in FY 2005 due primarily to activity related to the development of the new hospital building including \$710,011 for consulting, professional services, and planning cost that are included in construction in progress. In addition the Hospital invested in major movable equipment including: 1) An Ultrasound machine--\$129,657; 2) an X-ray C-Arm--\$112,800; 3) Two Anesthesia Machines--\$77,260; 4) a Hematology Analyzer--\$35,374; 5) a Sterrad NX Sterilizer System--\$39,397; and 6) \$48,072 for more routine items.

Current Liabilities

Current liabilities decreased \$504,247 (15.11%) from a total of \$3,336,842 in FY 2004 to a total of \$2,832,595 in FY 2005. This decrease is primarily due to decreases in Accounts Payable from \$1,503,629 at 9/30/04 to \$1,123,721 at 9/30/05. This \$379,908 (25.4%) decrease in Accounts Payable is primarily a result of the improved cash position of the Hospital as a result of improved operating results.

Long-Term Debt

At September 30, 2005 the Hospital has two items in Long Term Debt totaling \$160,818. One is an outstanding obligation to the St. Mary Parish Council for \$32,868. The note is unsecured and due and payable on demand. In lieu of payments on the note, the Hospital has agreed to provide medical services to the parish prisoners and offset the cost of such services against the balance due. The second item relates to capital leases with Hibernia National Bank totaling \$127,950.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2005

OPERATING AND FINANCIAL PERFORMANCE

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended September 30, 2005 and 2004:

Condensed Statement of Revenue and Expenses

	<u>Fiscal Year 2005</u>	<u>Fiscal Year 2004</u>	<u>Dollar Change</u>	<u>Total Percent Change</u>
Operating Revenue				
Patient service, net	\$ 11,125,473	\$ 10,771,456	\$354,017	3.29%
Taxes - ad valorem	1,757,106	1,335,895	421,211	31.53%
Net other operating revenues	<u>602,864</u>	<u>578,937</u>	<u>23,927</u>	<u>4.13%</u>
Total Operating Revenues	<u>13,485,443</u>	<u>12,686,288</u>	<u>799,155</u>	<u>6.30%</u>
Operating Expense				
Salaries and related benefits	6,765,305	6,476,651	288,654	4.46%
Subcontract services	2,386,479	2,427,978	(41,499)	-1.71%
Supplies and other	2,957,258	2,888,300	68,958	2.39%
Depreciation and amortization	<u>471,360</u>	<u>457,692</u>	<u>13,668</u>	<u>2.99%</u>
Total operating expense	<u>12,580,402</u>	<u>12,250,621</u>	<u>329,781</u>	<u>2.69%</u>
Income from operations	<u>905,041</u>	<u>435,667</u>	<u>469,374</u>	<u>107.74%</u>
Non-operating revenue				
Taxes - ad valorem	-	342,951	(342,951)	-100.00%
Other	<u>28,638</u>	<u>11,900</u>	<u>16,738</u>	<u>140.66%</u>
Net non-operating revenue	<u>28,638</u>	<u>354,851</u>	<u>(326,213)</u>	<u>-91.93%</u>
Net income	933,679	790,518	<u>143,161</u>	<u>18.11%</u>
Net assets, beginning	<u>6,498,318</u>	<u>5,707,800</u>		
Net assets, ending	<u>\$ 7,431,997</u>	<u>\$ 6,498,318</u>		

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2005

Operating Revenue

During Fiscal Year 2005, the Hospital derived 82.5% percent of its total operating revenues from net patient service revenues. Such revenues include revenues from the Medicare and Medicaid programs, patients, or their third-party carriers who pay for care in the Hospital's facilities.

The following table represents the relative percentage of gross charges billed for patient services by payor for the fiscal years ended September 30, 2005 and 2004 which shows very little change in payor mix with the 1.6% increase in Medicare and a 1.0% increase in Medicaid offset by the 2.6% decrease in Managed Care:

	Fiscal Year 2005	Fiscal Year 2004
Medicare	51.9%	50.3%
Medicaid	22.8%	21.8%
Managed care, commercial, other insurance	17.1%	19.7%
Self-pay	<u>8.2%</u>	<u>8.2%</u>
Total gross charges	<u>100.0%</u>	<u>100.0%</u>

- During FY 2005, the Hospital had patient days and admissions from all three patient types (acute, newborn, and swing bed) of 3,814 and 1,003 respectively. That compares to 4,191 and 1,111 in FY 2004. That is a decrease in patient days of 9.0 percent and 9.7 percent decrease in admissions. This decrease in volume is attributed to the changes implemented with the conversion to critical access. They are offset by the reduction in contractual allowances mentioned above.
- Outpatient visits were 18,332 in FY 2005 compared to 18,917 in FY 2004. Most of this decrease in outpatient volume is attributed to Laboratory which decreased from 41,048 in '04 to 36,854 in '05. But the emergency department went from 9,124 visits in FY 2004 to 9,197 visits in FY 2005 offsetting the Laboratory decrease.
- Adjusted Patient Days—during the fiscal year adjusted patient days which take into consideration all inpatient and outpatient activity decreased only slightly (0.3 %) from 10,161 in FY 2004 to 10,131 in fiscal year 2005.

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HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
(Unaudited)
YEAR ENDED SEPTEMBER 30, 2005

Operating Expense

- Total operating expenses increased 2.69 percent from a total of \$12,250,621 in FY 2004 to a total of \$12,580,402 in FY 2005. There were three major shifts in operating expense that netted to this modest increase. First, there was a \$97,769 (13.13%) increase in physician fees due primarily to the start up of the hospitalist program—note that these expenses were offset by professional fee revenue. Second, there was a \$107,095 (8.63%) increase in employee benefit cost, primarily due to increased health benefit cost. Third, there was a \$68,958 (2.39%) increase in supplies and other expense.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

While the annual budget of the Hospital is not presented within these financial statements, the Hospital's board and management considered many factors when setting the fiscal year 2005 budget. While the financial outlook for the Hospital is excellent, of primary importance in setting the FY 2005 budget is the status of the economy and the healthcare environment, which takes into account market forces and environmental factors such as:

- Medicare reimbursement changes
- Medicaid reimbursement changes, as well as the continuation at the current level of the disproportionate share program
- Increased number of uninsured and working poor
- Ongoing competition for services
- Workforce shortages primarily in nursing and other clinically skilled positions
- Ability to continue recruiting medical staff physicians

CONTACTING THE HOSPITAL FINANCIAL MANAGER

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances. If you have any questions about this report or need additional financial information, please contact the Chief Financial Officer, Franklin Foundation Hospital, 1501 Hospital Avenue, Franklin, LA 70538.

FINANCIAL STATEMENTS

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

Statement of Net Assets
September 30, 2005

ASSETS

Current assets:

Cash	\$ 152,080
Receivables:	
Patient, net of uncollectible provisions of \$556,156	1,766,047
Settlements - Medicare/Medicaid, net	632,087
Taxes	1,279,640
Other	4,174
Inventory	465,141
Prepaid expenses	137,594
Total current assets	<u>4,436,763</u>

Property, plant and equipment, net of accumulated depreciation	<u>5,988,647</u>
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Total assets	<u>\$10,425,410</u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Short term certificates payable	\$ 1,075,000
Current maturities of long-term debt	38,637
Accounts payable	1,123,722
Accrued wages and related withholdings	415,103
Other current liabilities	180,133
Total current liabilities	<u>2,832,595</u>

Long term debt, less current maturities	<u>160,818</u>
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Total liabilities	<u>2,993,413</u>
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Net assets:

Invested in capital assets	5,988,647
Unrestricted	1,443,350
Total net assets	<u>7,431,997</u>

Total liabilities and net assets	<u>\$10,425,410</u>
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The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

Statement of Revenues, Expenses and Changes in Net Assets
Year Ended September 30, 2005

Operating revenues:	
Patient service, net	\$ 11,125,473
Taxes - ad valorem	1,757,106
Other	<u>602,864</u>
Net operating revenues	<u>13,485,443</u>
Operating expenses:	
Depreciation	471,360
Insurance	251,814
Interest	33,075
Leases and rentals	84,364
Repairs and maintenance	270,721
Salaries and related benefits	6,765,305
Subcontract services	2,386,479
Supplies and other charges	1,944,434
Utilities	<u>372,850</u>
Total operating expenses	<u>12,580,402</u>
Income from operations	905,041
Nonoperating revenues (expenses):	
Other	<u>28,638</u>
Net income	933,679
Net assets, beginning	<u>6,498,318</u>
Net assets, ending	<u>\$ 7,431,997</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Statement of Cash Flows
Year Ended September 30, 2005

Operating activities:	
Revenue collected	\$ 11,418,357
Payments to employees and suppliers	(12,510,624)
Ad valorem tax receipts - operating	1,720,402
Other receipts from operations	<u>668,292</u>
Net cash provided by operating activities	<u>1,296,427</u>
Noncapital and investing activities:	
Other nonoperating receipts	<u>28,638</u>
Capital and related financing activities:	
Purchases of property and equipment	(1,152,571)
Proceeds from debt, net of repayments	<u>199,828</u>
Net cash used in capital and related financing activities	<u>(952,743)</u>
Net increase in cash	372,322
Cash and restricted cash (overdraft), beginning of period	<u>(220,242)</u>
Cash and restricted cash, end of period	<u>\$ 152,080</u>
Reconciliation of income from operations to net cash provided by operating activities:	
Income from operations	<u>\$ 905,041</u>
Adjustments to reconcile net operating income to net cash provided by operating activities -	
Depreciation	471,360
Provisions for uncollectible accounts	47,782
Changes in current assets and liabilities:	
Receivables	273,826
Inventory	32,171
Prepaid expenses and other assets	(38,656)
Accounts payable	(379,907)
Accrued wages and related withholdings	24,230
Other current liabilities	<u>(39,420)</u>
Total adjustments	<u>391,386</u>
Net cash provided by operating activities	<u>\$ 1,296,427</u>

The accompanying notes are an integral part of this statement.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

Hospital Service District No. 1, Parish of St. Mary (hereafter "Hospital") was created by ordinance No. 559 of the Police Jury of St. Mary Parish (predecessor of the St. Mary Parish Government) on September 20, 1950, to operate, control, and manage matters concerning the health care of citizens west and northwest of the Wax Lake Outlet. The Hospital is governed by a board of seven commissioners who are appointed by the St. Mary Parish Council.

The financial statements of the Hospital have been prepared in conformity with accounting principles generally accepted in the United States of America and, as a governmental entity provides certain disclosures required by the Governmental Accounting Standards Board. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant of the Hospital's accounting policies are described below.

A. Reporting Entity

As the governing authority of the parish, for reporting purposes, the St. Mary Parish Government is the financial reporting entity for St. Mary Parish. The financial reporting entity consists of (a) the primary government (parish council), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Governmental Accounting Standards Board Statement No. 14 established criteria for determining which component units should be considered part of the St. Mary Parish Government for financial reporting purposes. The basic criterion for including a potential component unit within the reporting entity is financial accountability. The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes:

1. Appointing a voting majority of an organization's governing body, and
 - The ability of the parish council to impose its will on that organization and/or
 - The potential for the organization to provide specific financial benefits to or impose specific financial burdens on the parish council.
2. Organizations for which the parish council does not appoint a voting majority but are fiscally dependent on the Government.
3. Organizations for which the reporting entity financial statements would be misleading if data of the organization is not included because of the nature or significance of the relationship.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (continued)

Because the parish council appoints the Hospital's governing body, Hospital Service District No. 1 was determined to be a component unit of the St. Mary Parish Government, the financial reporting entity. The accompanying component unit financial statements present information only on the funds maintained by the Hospital and do not present information on the parish council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity.

B. Fund Accounting

The Hospital is organized and operated on a fund basis whereby a self-balancing set of accounts (Enterprise Fund) is maintained that comprises its assets, liabilities, fund equity, revenues, and expenses. The operations are financed and operated in a manner similar to a private business enterprise, where (a) the intent of the governing body is that the cost (expense, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Basis of Accounting

The financial statements of the Hospital have been prepared in conformity with accounting principles generally accepted in the United States of America and, as a governmental entity provides certain disclosures required by the Governmental Accounting Standards Board. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to Government Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Enterprise Fund is accounted for on a flow of economic resources measurement focus and a determination of net income and capital maintenance. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Fund uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time liabilities are incurred, regardless of the timing of the related cash flows.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (continued)

D. Cash and Cash Equivalents

Cash includes amounts in demand deposits and interest bearing demand deposits. Cash equivalents include amounts in time deposits having a maturity of three months or less when purchased.

E. Net Patient Service Revenue

The Hospital has agreements with third-party payers, including government programs, health insurance companies and managed health care plans under which the Hospital is paid based upon established charges, the cost of providing services, predetermined diagnosis rates, fixed per diem rates or discounts from established charges. Revenues are recorded at estimated amounts due from patients and third-party payers for the services provided.

Net patient service revenue is reported at estimated amounts realizable from patients, third-party payers, and others for services rendered. The Hospital provides care to patients even though they are covered by contractual payment arrangements that do not pay full charges or may lack adequate insurance. As a result, the Hospital is exposed to credit risks. The Hospital manages such risks by providing appropriate allowances. The allowances are evaluated on a regular basis and is based upon management's periodic review of the collectibility of the accounts considering historical experience, the nature and volume of the accounts and the agreements with respective third-party payers.

F. Inventories

Inventories are stated at the lower of cost or market, with cost determined by the first-in first-out, (FIFO) method.

G. Prepaid Expenses

The Hospital records prepayments, such as insurance, as an asset on the balance sheet and systematically recognizes an expense ratably over the term of the prepayment.

H. Restricted Assets

Certain proceeds of enterprise fund bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also included are assets set aside by the Board of Commissioners for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (continued)

I. Fixed Assets

Fixed assets are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income.

Depreciation of all exhaustible fixed assets used by enterprise funds is charged as an expense against operations; and accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land Improvements	10 years
Building and Improvements	15-50 years
Equipment	4-15 years

The recognition of depreciation begins upon placement of the asset into useful operation.

J. Capitalized Interest

The Hospital capitalizes net interest costs and interest earned as part of the cost of construction when material.

K. Compensated Absences

Full-time employees of the Hospital earn up to a maximum of 28 days of paid time off, depending on length of service. A maximum of 24 days for regular employees and 28 days for department managers may be carried forward to the succeeding fiscal year.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (continued)

L. Net Assets

Net assets are classified and displayed in the following three components:

- a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – all other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

M. Ad Valorem Taxes

The Hospital’s ad valorem tax is levied in October of each year on the assessed value of property within the taxing area. Taxes are due and payable by December 31 and an enforceable lien attaches to the property on January 1. The taxes are collected on behalf of the Hospital by the St. Mary Parish Sheriff and then remitted to the Hospital. The District receives most of the ad valorem taxes in January and February. For the year ended September 30, 2005, the Hospital levied property tax millages totaling 20.15 mills.

N. Operating Revenues and Expenses

The Hospital’s statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transaction associated with providing health care services. Also reported as operating revenues are nonexchange revenues, primarily ad valorem taxes, received without restriction for operating purposes. Other nonexchange revenues, including ad valorem taxes restricted as to use, grants, and contributions are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services. Peripheral or incidental transactions are reported as components of nonoperating income or loss.

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (continued)

O. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Reclassifications

Certain accounts in the prior year financial information have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

(2) Cash and Certificates of Deposit

Under state law, the Hospital may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. The Hospital may invest in certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana. At September 30, 2005, the Hospital had cash and interest-bearing deposits (book balances) totaling \$152,080.

These deposits are stated at cost, which approximates market. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent bank. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At September 30, 2005, the Hospital had cash and interest bearing deposit balances (bank balances), including restricted cash, totaling \$260,391 as follows:

Insured (FDIC)	\$ 110,200
Collateralized by securities held by the pledging financial institution's trust department in the Hospital's name	150,191
Uninsured, uncollateralized or collateralized by securities held by the pledging institution or its trust department or agent, but not in the Hospital's name	-
	<u>\$ 260,391</u>

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (continued)

(3) Property and Equipment

A summary of property and equipment at September 30, 2005 follows:

	<u>10/1/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>9/30/2005</u>
Land	\$ 312,799	\$ 7,200	\$ -	\$ 319,999
Land improvements	69,824	-	-	69,824
Buildings and improvements	6,405,258	-	-	6,405,258
Fixed equipment	1,348,018	-	-	1,348,018
Movable equipment	6,826,800	305,703	-	7,132,503
Construction in progress	<u>492,907</u>	<u>839,668</u>	<u>-</u>	<u>1,332,575</u>
	15,455,606	1,152,571	-	16,608,177
Less: accumulated depreciation	<u>(10,148,170)</u>	<u>(471,360)</u>	<u>-</u>	<u>(10,619,530)</u>
Property and equipment, net	<u>\$ 5,307,436</u>	<u>\$ 681,211</u>	<u>\$ -</u>	<u>\$ 5,988,647</u>

Depreciation expense for the year ended September 30, 2005 was \$471,360.

(4) Short term Certificates Payable

The Hospital obtained authorization from the State Bond Commission to issue short term certificates, not to exceed \$1,500,000. Such debt is incurred to pay operating expenses in anticipation of revenues for the current year. The certificates are due and payable on or before March 1, 2006 and bear interest at a rate not exceeding 4.728 percent per annum. At September 30, 2005, unpaid balance on the line of credit was \$1,075,000 and had accrued interest in the amount of \$19,113.

(5) Long-term Debt

The following is a summary of long-term debt transactions of the Hospital for the year ended September 30, 2005.

	<u>10/1/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>9/30/2005</u>	<u>Due Within One Year</u>
Capital lease obligations	\$ -	\$ 190,061	\$ 23,474	\$ 166,587	\$ 38,637
Loans payable	<u>74,627</u>	<u>-</u>	<u>41,759</u>	<u>32,868</u>	<u>-</u>
Total	<u>\$ 74,627</u>	<u>\$ 190,061</u>	<u>\$ 65,233</u>	<u>\$ 199,455</u>	<u>\$ 38,637</u>

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (continued)

Long-term obligations are comprised of the following:

Capital lease obligations:

Hibernia National Bank. Payable at 4.6 percent in monthly installments of \$2,107 and \$1,465 collateralized by equipment with costs of \$112,800 and \$77,261, respectively.

Loans payable:

St. Mary Parish Council. The note is unsecured and due and payable on demand. In lieu of payments on the note, the Hospital has agreed to provide medical services to the parish prisoners and offset the cost of such services against the balance due.

Scheduled principal and interest repayments on capital lease obligations are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 38,637	\$ 7,242
2007	37,402	5,477
2008	39,254	3,625
2009	41,199	1,680
2010	10,095	111
Total	<u>\$ 166,587</u>	<u>\$ 18,135</u>

(6) Concentrations of Credit Risk

The Hospital grants credit without personal collateral to its patients, most of whom are local and/or Louisiana residents and are insured under third-party payer arrangements. The mix of receivables from patients and third party-payers were as follows:

Medicare	29.6%
Medicaid	10.5%
Commercial insurance	17.0%
Private pay	42.9%
	<u>100.0%</u>

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

Notes to Financial Statements (continued)

(7) Management Contract

In July of 1984, the Hospital entered into an agreement with Quorum Health Resources, LLC (formerly HCA Management Company, Inc.) to manage the day-to-day business affairs of the hospital. Quorum provides the hospital with the services of an administrator and a controller. Management fees are adjusted annually based on the Consumer Price Index. These fees are paid monthly in addition to a reimbursement for compensation and fringe benefits paid to the personnel furnished by Quorum to the hospital. For the year ended September 30, 2005, management fees and reimbursements for compensation and fringe benefits were \$274,789 and \$273,976, respectively.

(8) Contingent Liabilities

Compensated Absences. The Hospital is contingently liable for compensated absences. Compensated absences are nonvesting and are not paid in the event of termination of employment. Accrued compensated absences as of September 30, 2005 was \$173,167.

Litigation. At September 30, 2005, the Hospital was a defendant in various lawsuits. The Hospital's legal counsel has reviewed the claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the Hospital and to arrive at an estimate, if any, of the amount or range of potential loss to the Hospital. As a result of the review, the various claims and lawsuits have been categorized into "probable", "reasonably possible", or "remote", as defined by the Governmental Accounting Standards Board. It is the opinion of the Hospital after conferring with legal counsel, that the liability, if any, which might arise from these lawsuits would not have a material adverse effect on the Hospital's financial position.

(9) Compensation of Board Members

Members of the Board of Commissioners of Hospital Service District No. 1 serve without compensation for their services. Board members are

Marshall Guidry
Ann Luke
Didi Battle
Nick Accardo, M.D.
Eugene Foulcard
Clegg Caffery, Jr.
Alan Von Werder

INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS

KOLDER, CHAMPAGNE, SLAVEN & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

C. Burton Kolder, CPA*
Russell F. Champagne, CPA*
Victor R. Slaven, CPA*
P. Troy Courville, CPA*
Gerald A. Thibodeaux, Jr., CPA*
Robert S. Carter, CPA*
Arthur R. Nixon, CPA

Tynes E. Nixon, Jr., CPA
Allen J. LaBry, CPA
Albert R. Leger, CPA, PFS, CSA*
Harry J. Clostio, CPA
Penny Angelle Scruggins, CPA
Christine L. Cousin, CPA
Mary T. Thibodeaux, CPA
James R. Roy, CPA
Robert J. Metz, CPA
Kelly M. Doucet, CPA
Kenneth J. Rachal, CPA
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Chris E. Bilski, CPA

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Hospital Service District No. 1
Parish of St. Mary, State of Louisiana
Franklin, Louisiana

We have audited the financial statements of the business-type activities of Hospital Service District No. 1, Parish of St. Mary, State of Louisiana, as of and for the year ended September 30, 2005, and have issued our report thereon dated November 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hospital Service District No. 1's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hospital Service District No. 1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management of Hospital Service District No. 1, others within the organization, and the St. Mary Parish Government and is not intended to be and should not be used by anyone other than specified parties. Although the intended use of this report may be limited, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document in accordance with LSA-R.S. 44:6.

Kolder, Champagne, Slaven & Company, LLC
Certified Public Accountants

Morgan City, Louisiana
November 23, 2005

HOSPITAL SERVICE DISTRICT NO. 1
Parish of St. Mary
Franklin, Louisiana

Summary Schedule of Findings and Questioned Costs
Year Ended September 30, 2005

Part I. Summary of Auditor's Results:

An unqualified opinion was issued on the financial statements.

No reportable conditions in internal control were disclosed by the audit of the financial statements.

The audit did not disclose any instances of noncompliance which are material to the financial statements.

A management letter was not issued.

Part II. Findings required to be reported in accordance with generally accepted *Governmental Auditing Standards*:

not applicable

Part III. Findings and questioned costs for federal awards required to be reported in accordance with Office of Management and Budget Circular A-133:

not applicable

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

Schedule of Prior Audit Findings
Year Ended September 30, 2005

Ref. No.	Fiscal Year Finding Initially Occurred	Description of Finding	Corrective Action Taken	Planned Corrective Action/Partial Corrective Action Taken
			(Yes, No, Partially)	

There were no items previously reported.

HOSPITAL SERVICE DISTRICT NO. 1

Parish of St. Mary
Franklin, Louisiana

Corrective Action Plan for Current Year Findings
Year Ended September 30, 2005

Ref. No.	Description of Finding	Corrective Action Planned	Name(s) of Contact Person(s)	Anticipated Completion Date
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Compliance

There are no items that are required to be reported.

Internal Control

There are no items that are required to be reported.

Management Letter Items

There are no items that are required to be reported.